CHAPTER – IV
EVOLUTION OF BANK MARKETING

INTRODUCTION

Marketing in the banking industry in its style and intensity is doing marvellous development in recent years. It owes much to the creation of mass production and small consumption society which in turn has stimulated competition by creating greater selling opportunities and rewards\(^1\).

Since the mid-and late 1970’s financial services in the more advanced countries have been characterised by increasing competition. Financial markets have been transformed and new financial instruments are innovated at regular intervals. The increased competitions have been brought about by a combination of factors like the saturation of traditional markets of bank, a shift from quantitative to qualitative growth, inflation and financial disintermediation. All these factors have led to blurring of financial distinctions between banks and other financial institutions\(^2\). The evolution of financial systems of countries from “bank oriented” stage to “market oriented stage” is examined in this chapter along with Indian experience.

Evolution of Bank Marketing in U.S.A

In United States marketing has developed to greater extent. Aggressive marketing practices have been largely responsible for the high material standard of living. But even in this country modern marketing has come after first world war, when the words ‘surplus’, and ‘overproduction’ became an important part of economics. Since 1920, except during the Second World War and the immediate post-war period, a strong buyers market existed in USA. This is the available supply of products and services have far surpassed effective demand\(^3\).

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The type of economy of USA largely explains why marketing is an American phenomenon. It is a country of abundance that produces and consume far beyond their subsistence needs. Although marketing exists in every type of modern economy, it is especially important for successful business performance in a highly competitive economy of abundance.

One of the major trends in America has been the dramatic growth of service. As a result of rising affluence, more leisure time and the growing complexity of products that requires servicing. The USA has become the world’s first service economy. This has led to a growing interest in the special problems of marketing of services.

The seed of the applications of the marketing concept for banking can be related to the American Banking Association Conference of 1918. In USA, 1960’s was the growth period of retail banking. In the initial stages marketing was by and large associated with advertising, public relations and promotion aspects. The operative word in banks was ‘business development’ and not selling or marketing of services⁴.

The American Banker’s Association (ABA) has conducted several surveys for a certain period of time and brought out numerous publications on marketing of banking services in the middle of 1950’s. Over the years, the Marketing Department of ABA has extended commendable support to the member banks of the Association in developing the marketing functions.

A number of factors have contributed to the development of marketing approach of banking in USA. Being the classical land of unit banking, American banks have been unable to rely on branch expansion to increase their profits. This meant that the US banks had to sell their services to the customers. For this they

have used marketing approach to collect feedback from the staff and customers on their product and service development. Most US banks keep their staff areas well stacked with advertisement and leaflets for the cross selling of new service. After a screening process, any seemingly viable proposition will be tested by market research to establish whether the combination of expected demand and projected demand price justifies launching the service⁵.

For years, commercial banks in USA made customers feel that they should be honoured to have their money in a checking account with no interest, but with a service charge. And savings accounts earned very low interest rates. Stanton remarked that banks were ‘marble mausoleums’ and bankers were the ‘black-hatted and caped villains of song and story⁶.

When the market situation had changed most banks strived to change such image. Because of the extent of deregulation by the government, commercial banks encountered intensified competition from other commercial banks, savings and loan institutions and financial institutions outside the banking industry. Bankers were compelled to do a little marketing to meet these challengers. In fact some banks moved aggressively to shorten the transition period by pirating marketing executives from famous consumer product companies. Banks began to establish marketing departments, conduct sales training programmes and engaged in marketing research during this period. Later banks made every effort to attract retail and wholesale business. Buildings and material layouts were designed to project an image of warmth, friendliness and informality. Drive-in-service and bank credit cards have been introduced for consumer convenience⁷.

In USA many of the state branching laws, along with Mc Fadden Act, place severe limits on the locations where banks can serve their customers. In the past, branches have been built at precise locations fully staffed and open for business

⁷. Ibid., p. 501.
during a limited number of hours in a week. Towards the end of seventies, customers have been given different ways to complete the majority of their banking outside the traditional time and place limitations imposed by manned branches.\footnote{Edwin B. Cox, “The Competition in Retail Banking”, The Bankers Magazine. Vol. 162, No. A 1979, pp. 24-31.}

The continuation of Regulation ‘Q’ by Congress since 1966 has kept a ceiling on the interest rate payable on savings deposits, lower for commercial banks than for savings and loans or mutual savings banks. Commercial banks found the Negotiable Certificate of Deposit to overcome the interest ceiling on Regulation. ‘Q’ formerly checking facility in USA was offered only by banks. But later on non-bank financial institutions also started offering this facility. Consumers made banks understand that they want the convenience of a checking account but they also want to earn interest through this facility. This necessitated the introduction of NOW (Negotiable Order Withdrawal) accounts. In 1978 the ATS (Automatic Transfer Service) was introduced to give customers the ability to have funds automatically moved from an interest bearing savings account to a non-interest bearing demand deposit account as and when needed.

Consumer finance companies were the competitors of commercial banks in the granting of credit for decades. Since 1960, banks increased their share of consumer instalment credit through the introduction of “bank cards”, in competition with the retailers “charge cards”.

The different stages of bank marketing in USA can be summarized as under. First, the “production era” up to 1960s when the emphasis was on producing and selling. During this stage banks had a predominantly inward looking focus. In the second stage the “promotion era” from 1960s to 1970s, the focus was more on product quality and effects of competition. Banks began to recognize the need to identify customers and to advertise. The potentials of marketing were increasingly recognized in this stage.
The early 1970s saw the development of the third stage the “marketing-oriented era”. The selling concept was much more strongly emphasized during this stage and greater efforts were directed at promotion. The final stage of evolution called “marketing control era” began by 1980s. There marketing control implied that marketing considerations ultimately drive the whole organization. In one sense, the historical transition from the production to the marketing control stage was also one from a sellers market to a buyers market.

USA is trying to move towards cash less system. Banking is now brought home by the pay-by phone procedure where in the customer calls the pay-by phone number and gives the appropriate account number, code etc. There are a few more access controls. The transaction is validated and then effected. Today, the banks in USA are exploring the use of internet for banking transactions and for sending financial messages.

**Evolution of Bank Marketing in United Kingdom**

The decision is taken to introduce marketing into bank operation is an important turning point in the development of personal banking in England. Although it is difficult to put a precise date on the decision of UK banks to become involved in marketing, it is a cautious and creeping process. In the early sixties several banks have sent their senior executives to USA to study what has been happening there. This has followed by the creation of marketing departments in their head offices, typically labeled “Marketing” and since then over a period of ten to fifteen years the idea of marketing have been applied in a variety of ways and a number of banking operations. Retail banking in UK and many other European counties has changed at an unprecedented rate since early 1960s. New competitors and new forms of competitions have continually extended the traditional frontiers of retail banking. Systematic and effective

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implementation of bank marketing started in UK only towards the latter part of 1970s. From mid-seventies banks have been forced to adopt a more positive market orientation under the pressures of competition. Shaped by the forces of deregulation, innovation (financial and technological), social change and competition, the market for retail deposits became a market for plethora of financial services.

The commercial banks in UK were traditionally more conservative and banks were acting merely as “cloak rooms” into which deposits were paid and some of which were eventually drawn out again\(^\text{11}\). The appearance of the so called ‘personal loan’ in the 1960s and the acquisition by a Scottish Bank of a hire purchase company paved way for the beginning of a new era in banking.

There are many factors behind the resistance to marketing approach in UK banking system. Unlike USA, British banks are following branch banking system where the banks know relatively little about their customers. Secondly, the wide products range of banks’ causes of effective marketing. It requires considerable number of branch staff, time and enthusiasm to market more than 250 services through a branch. Finally, the perception of the bank customer who traditionally sees the bank as a provider of loans rather than a supplier of other services, limits the marketing efforts of banks\(^\text{12}\).

The larger banks in UK formed the marketing departments only towards 1970. The abolition by the Government of Credit Control Regulation and Bank rate control in 1971 sharpened the competitiveness between banks, since they became free to set their own base rates on which to base the interest offered to depositors and borrowers. From the early 1970s, the UK financial system has been deregulated to an increasing extent. The genesis of deregulation movement was marketed by the competition and Credit Control measures of September 1971.

During this period the number of foreign banks in London grew at an unprecedented rate under the stimulus of a generally liberal political and regulatory environment. The internationalisation movement by banks was originally fostered by international and corporate banking considerations. Foreign banks followed their own multinational corporate customers not only in their country but also in abroad. They began to penetrate the domestic later.

The ‘Big four’ clearing banks concentrated more on international and wholesale banking activities during the 1970s. Growing competition from US and other foreign banks in domestic corporate banking markets tended to shift the emphasis away from retail banking.

It was not until the early 1980s that the attraction of stable retail deposits and the growing opportunities in retail financial services were given much higher priority by the major clearing banks in UK. Following the abandonment of ‘coreset’ balance sheet restrictions in 1980, the banks responded by entering the home mortgage market in a far more aggressive fashion. The deregulation of building societies and ‘Big Bang’ on the London Stock Exchange, heralded a new era in banking and financial service competition in UK.

An important phenomenon in the changing environment was that of structural diffusion in UK banks both at institutional and market level. Institutional structural diffusion refers to the movement of financial firms into new and often non-traditional areas and non-financial firms moved to the financial services area. As a result the traditional barriers between financial institutions and other operations were eroding rapidly. Similarly, structural market diffusion resulted in breaking down of traditional barriers between financial markets.

As a consequence of all these changes UK banking had changed from a sleepy supply business dominated by commercial banks in the early sixties into a
dynamic demand oriented activity in which many players – both bankers and non-bankers compete aggressively to obtain a valuable share of the market\textsuperscript{13}.

Banks and other financial service organizations in Britain had found it increasingly necessary to become more marketing oriented during the mid-seventies. Major Banks appointed managers with strong marketing grounds to very senior positions. Growing competition convinced banks that they could not rely forever on interest margins to provide profits and with the banks loosing the fight with building societies for deposit market, fee earning services and wider product range became priorities. In addition consumer demand for financial services increased considerably and a new approach was required to create and win customers.

The combined effect of all these developments made UK banks realize the importance of marketing. They started identifying their customer needs and introduced a number of products and services. Market segmentation and management information systems were developed to support product costing and customer profitability analysis was also introduced. Gradually, UK banks had undergone the transition from ‘marketing oriented era’ to ‘marketing control era’ and of late the ‘relationship banking era’.

The acquisition of Midland bank by Hongkong and Shangai Banking Corporation in 1993 and the purchase of major building societies like Cheltenham and Gloucester by Lloyds bank in 1994 have important implications for further diversification by banks beyond what has already taken place\textsuperscript{14}. The technological advancement in service delivery has brought in modern banking facilities like home banking, tele-banking and internet banking by UK banks in recent years.

\textsuperscript{13} Clerk P.D., Gardner E.P.M., Feeney P. and Molyneux P., Genesis of Strategic Marketing Control in British Retail Banking, Research Papers in Banking and Finance, Institute of European Finance, 1988.

Bank Marketing in Japan

The Second World War had a divesting effect on the whole of Japan’s economy including banks. But they reconstructed their banking system. The Daiichi Kangyo Bank, which was the largest bank in Japan, started working with computers since 1960. By 1980, an audio-response system was established for all clients with a push-button telephone. A nation-wide online banking network called Heart On-line Processing System (HOPS) was established which covers all major banking functions such as deposits, loans, foreign exchange etc. Hence, the quality of customer service and efficiency of the bank has significantly increased. The Mitsubishi Bank has innovated imaginative applications for its customers into “voice answer back system”\(^\text{15}\).

Japanese banking, like Indian banking, was totally administered and kept under a firm control. Foreign banks were disallowed to enter into competition with domestic financial institutions. In the process Japan had accumulated large net external assets which put the country in a unique position to play well in financial liberalization. It was only in 1984 that they were allowed to liberalise. Today Japanese banks are offering high-tech services to customers\(^\text{16}\) and using all techniques and tools of bank marketing.

Bank Marketing in India

Indian Banking started on the classical Scottish banking model as an intermediary for taking deposits and to deploy funds to working capital requirements of trade and industry. The marketing concept had not been fully accepted by the management as a corporate philosophy in India till then. Though India had the largest network of branches in the world, innovation in banking, remained years behind in the development of the banking world.

\(^{16}\) Bursten Daniel, Yen : Japan’s New Financial Empire and its Treat to America, Simon and Schusta, New York, 1988, p. 43.
There are various reasons stated against this backwardness in marketing orientation of Indian banks. Some of them are given below.

1. Strict regulatory directives exerted by Government of India and Reserve Bank of India such as social banking, priority sector lending, high liquidity ratios etc. have reduced the loanable resources of commercial banks.

2. Operational staffs of the banks were burdened with the dual responsibility of developing of business besides their regular operations.

3. Ground Rules and Code of Ethics by Indian Banking Association which have often curbed creative and innovative banking.

4. Public sector banks executives do generally avoid risk taking because of fear of accountability.

5. Dearth of appropriate reward/incentives for successful marketing efforts either in cash or promotion for career build up\textsuperscript{17}.

A peep into the history of Indian banking right from the beginning for the century shows that large number of banks failed with heavy losses of depositors money. The failure of Palai Central Bank in 1960 caused uproar and shook the public confidence in the banking system. In order to protect the depositors, RBI and the Government of India form the set of rules and regulations to improve banking industry. This has marked the real beginning of administered banking in India. A few years ago, the Indian Financial system was heavily regulated to such an extent in terms of participants (institutions), paper (instruments), and prices (interest rates). Restrictions were also imposed on location of branches and

\textsuperscript{17} Biswa N., Bhattacharya. M and Ghose B.K., Marketing of Banking Services in the 90’s, Economic and Political Weekly, Feb. 25, 1989, p. 27.
promotional aspects. The basic requisites of a free and flexible system were almost absent\textsuperscript{18}.

Before independence Indian banks were more conservative and inward looking and only concerned with their profits. Bank offices were mostly located at the important trade and industrial centers. A notable feature of Indian commercial banks was the control of the major banks by leaders of commerce and industry. The Banking Commission\textsuperscript{19} observed that the ratio of paid up capital and reserves to deposit declined by 75 percent from 1951 to 1969 period. The increase in deposits in relation to owned capital and reserves enabled the industrialist shareholder with a low capital contribution to command the much larger resources available to the bank in the form of deposits collected from the public at large.

The formation of the State Bank of India by nationalizing the Imperial Bank of India in 1955 was with three main objectives: to expand branch network in rural and unbanked areas, to provide assistance to agriculture and small scale industry and to enable the functions as a substitute of RBI in areas where it had no branch. SBI was given a target of opening 400 branches in five years which was achieved by the bank successfully.

A pioneer attempt in the direction of marketing was initiated by the SBI in 1972. The bank was reorganized on the basis of major market segments dividing the customers on the basis of different activities. Accordingly four major segments were identified as commercial and institutional segment, small industries segment, agriculture personal and services banking segment. The major objectives of the scheme were:

\textsuperscript{18} Ganti Subrahmaniam, Liberlisation of india’s Banking & Monetary Regime, Prajnan Vol. XX, No. 4, 1991, p. 365.
\textsuperscript{19} Report of Banking Commission, Reserve Bank of India, Bombay, 1972.
1. Deeper penetration and coverage of its markets by looking outwards.

2. Adequate flexibility of organization to accommodate growth and rapid change and

3. Delegation of work for releasing senior management for more futuristic tasks.²⁰

Gradually the marketing terminology was used in Indian banking scenario, but it was confined to advertising and selling. However, attempts were made to improve the product development and customer service.

There are three phases of market diversification in the operations on Indian banking.²¹ During the first plan period, more emphasis was given to industrialisation and banks started catering to the larger capital needs of the industry including consortium lending and loans to public sector undertaking.

Towards the end of 1965, a beginning was made in the direction of bringing credit activities of banks more in alignment with the planning policies. The Credit Authorisation Scheme was introduced in 1965. This was the first phase of consolidation of Indian banks.

With Social Control of banks in 1968 and subsequent nationalization of 14 commercial banks in July 1969 the second phase of diversification started. The banking prior to nationalisation was the privilege of a few big wigs like big industrialists big businessmen and big landlords. There were hardly any public relationships or any marketing in bank services. Banks were happy with walk-in-business and there was no urge for deposit mobilization or fulfilling social obligation and national goals. The public in general were not made aware

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of the facilities of the banks and no attempt was made by the authorities to do so. Nationalization had brought in metamorphic change in the very objective of banking and the banking system had taken upon itself the role of the most important development agency in the country.

The involvement of public sector banks in the transformation process of Indian economy made it urgent that bankers review their services not only as financial intermediaries but also as pace-setters. Indian banks cannot ignore the rational approach while framing the marketing strategies keeping in mind of the aspirations of the nation upon it\(^\text{22}\).

The third phase of transformation of Indian banking began in early 1980s when banks had started involving themselves in disintermediation activities like merchant banking. The decade of 1980s has clearly established the cult of equity in India in the capital market. Against a target of Rs. 3,500 crores to be raised by private sector from capital market during the seventh plan, actual amount raised was as high as Rs. 13,000 Crores\(^\text{23}\). As companies started raising resources directly from capital markets and introduced competitive savings instruments to attract household savings, there was a visible shift towards the process of disintermediation.

In order to arrest this trend by passing the banking system, RBI came up with liberalization measures like withdrawal of Credit Authorisation Scheme and deregulation of interest rates etc. Certificates of Deposits were introduced to ensure the superiority of banks in the deposit mobilization. The demarcation line between capital and money market was also getting thinner gradually though on a limited basis with the introduction of commercial paper.


The bankers in India had been practicing some aspects of marketing for the period after nationalization in an unconscious manner. When branches were expanded to even remote areas of the country, it was a means to tap the rural savings to a considerable extent. The traditionally bank-shy weaker and backward sections of the community were given the opportunity to develop themselves through various subsidized bank schemes like IRDP, DRI etc. Service Area Approach adopted by the banks is a marketing approach whereby a specific target market is assigned to each bank branch and after identification of the needs of the customers, all efforts of the banks are required to be concentrated to satisfy the customers to achieve the bank’s social objectives.24

The Indian banking industry had undergone another phase of its metamorphosis since the commencement of liberalisation in 1991, following the recommendations of the Narasimham Committee on Financial Systems. Measures like reduction in reserve requirements, deregulation of interest rates, introduction of prudential norms relating to capital adequacy, liberalisation of branch licensing policy etc. forced the banks to relook at their business strategies. Moreover, opening up of doors to private sector banks and foreign banks added to the competition.25 The technological developments and globalization had exerted pressure on banks to redefine their business.

Presently, Indian bankers increasingly find themselves operating in a buyers market. The scope of activities that they engage in the range of new financial instruments they handle and the level of technology absorption which has brought the market across the globe closer have all forced them to accept marketing an organization imperative.26

The old order of regulated and administered banking had changed and cleared way for a paradigm shift towards market oriented, commercially driven banking system in India.

CONCLUSION

It can be concluded that the marketing of bank services has gained a considerable importance both in developing (USA, UK and Japan) and developed countries (India). In India, the need for marketing of bank services has been felt both as a means as well as an end of development. Marketing of bank services has been slowly and steadily its growth momentum in India. The development and knowledge of marketing of bank services are expanding at an alarmingly faster rate.